

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Carrier Branch**

**RESOLUTION T-16716
December 19, 2002**

R E S O L U T I O N

RESOLUTION T-16716. ROSEVILLE TELEPHONE COMPANY. (U-1015-C).
ORDER ADOPTING PRICE CAP MECHANISM IN COMPLIANCE WITH
DECISION 96-12-074 THROUGH ADJUSTMENTS TO SURCHARGES TO BE
EFFECTIVE JANUARY 1, 2002.

BY ADVICE LETTER 735 FILED ON SEPTEMBER 27, 2002.

Summary

This Resolution authorizes Roseville Telephone Company to increase its annual revenues by \$525,765 effective January 1, 2003. The revenue adjustments adopted and surcharge changes in this Resolution are reflected in Appendix A and B, respectively. Roseville requested an incremental revenue increase of approximately \$525,765 due to impacts of exogenous (Z-Factor) changes to annual federal Universal Service support payments received and removal of the prior year's one-time adjustments.

Background

New Regulatory Framework (NRF)

In Decision (D.) 96-12-074 the Commission adopted an incentive-based regulatory framework (called the new regulatory framework or "NRF") for Roseville based on the NRF adopted for SBC Pacific Bell Telephone Company (Pacific) and GTE California Incorporated (GTEC), which is now known as Verizon California Incorporated. The decision requires Roseville to follow the principles of NRF established in D.89-10-031, D.94-06-011, and D.94-09-065 subject to the following difference... Earnings between the benchmark and ceiling rates of return shall be shared equally between shareholders and ratepayers.

In D.89-10-031, we originally adopted an incentive-based regulatory framework for Pacific and GTEC. The decision stated that prices and rate caps would be indexed

annually according to the Gross National Product Price Index (GNP-PI) inflation index reduced by a productivity adjustment.

The indexing formula allowed rate adjustments for a limited category of exogenous factors, called Z-factors, whose effects will not be reflected in the GNP-PI. Only specific types of costs were considered Z-factors: changes in federal and state tax laws to the extent they affect the local exchange carriers disproportionately, mandated jurisdictional separations changes, and changes to intraLATA toll pooling arrangements or accounting procedures adopted by this Commission.

However, the Commission did not authorize Z-factor treatment for all unforeseen or exogenous factors. In D.89-10-031, the Commission stated that ...Normal costs of doing business (including costs of complying with existing regulatory requirements) or general economic conditions would be excluded as Z-factor items.

Since D.89-10-031, the Commission has subsequently issued several decisions modifying the NRF program. In D.93-09-038, the Commission ordered GTEC to replace the GNP-PI with the Gross Domestic Product Price Index (GDP-PI) commencing with GTEC's 1994 price cap filing. The Commission, in D.94-06-011, also ordered Pacific to replace the GNP-PI with the GDP-PI commencing with Pacific's 1995 price cap filing. In D.94-09-065, the Commission authorized Pacific and GTEC to implement the 1995 price cap rate adjustments through the billing surcharge/surcredit mechanism.

With regards to Roseville, the Commission modified Roseville's regulatory framework in D.01-06-077 by: a) eliminating depreciation reviews, b) suspending the I-X portion of the price adjustment formula, c) eliminating Z-factors except to finish implementation of those Z-factors now being implemented and d) establishing a LE factor mechanism for Roseville as established in D.98-10-026

Roseville's Price Cap Filing

On September 27, 2002, Roseville filed its 2003 price cap advice letter (A.L. 735) filing to comply with O.P. No. 7 of D.96-12-074. In this filing, Roseville proposed to include the following exogenous (Z-factor) adjustments to its revenues (reduction in parenthesis):

- | | |
|---|------------------------|
| • Universal Service Fund (USF) Recovery Adjustment | \$525,765 |
| This is an adjustment to reflect the Interstate Universal Service Fund Reduction for the removal of the prior year's one-time adjustment. | |
| • Total Revenue Adjustment | <hr/> \$525,765 |

As shown above, the net result of the above-mentioned (Z-factor) adjustment was an increase of \$525,765 in Roseville's revenues. To recover this revenue, Roseville requests authorization to modify:

1. The current surcharge to be applied to all Local Exchange Services with the exceptions of Category III Services and the taxes and surcharges currently listed in the tariffs from 3.5315% to 4.5238%.
2. No changes in the current surcredit to all intraLATA toll in Schedule Cal. P.U.C. No. A25 at -2.2452%.
3. No changes in the current surcredit to all Access Services listed in the Schedule Cal. P.U.C. No.1 at -0.2012%.

Notice/Protests

Roseville states that a copy of the Advice Letter and related tariff sheets were mailed to competing and adjacent utilities and/or other utilities, and to the customer named in the contract. Notice of Advice Letter 735 was published in the Commission Daily Calendar of October 4, 2002. No protest to this Advice Letter has been received.

Discussion

Interstate Universal Service Fund Reduction:

The National Exchange Carrier Association (NECA) administers the Interstate Universal Service Fund (USF), which is a federal program intended to preserve universal service by offsetting the cost of the local loop in high cost areas. The USF provides subsidies to qualifying local exchange telephone companies that provide service to customers who live in areas that are expensive to serve. The Federal Communications Commission (FCC) determines which areas qualify as high cost areas. To qualify for USF subsidies, a telephone company must demonstrate that the actual per-line cost to provide service to telephone customers that are expensive to serve exceeds a national average per-line cost determined by the FCC. Differences between amounts received from the USF by a qualifying company and its actual high costs are collected/refunded from intrastate customers.

Roseville proposed a revenue increase of \$525,765 for the removal of prior year's one-time adjustment that was assigned to local exchange services, pursuant to Resolution T-15978 (change in 2001 estimate to 2001 latest view).

The Telecommunications Division recommends adoption of the Interstate Universal Service Fund (Z-factor) adjustment of \$525,765 (removal of one-time adjustment). This adjustment results in a revenue increase by \$525,765 and the incremental change in the local surcharge by 0.9923%.

Price Floor:

Roseville's proposed 2003 price floors were reviewed and Roseville uniformly applied the inflation factor of 1.03% to its price floor adjustments. For the purpose of adjusting its price floor, Roseville proposes a GDP-PI factor of 1.03% based on the following approach:

1. GDP-PI 2 nd Qtr, 2000	109.32
2. GDP-PI 2 nd Qtr, 2001	110.45
3. "I" Factor ($\text{Ln}2 - \text{Ln}1 / \text{Ln}1$)	1.03%

For future price cap filings, Roseville shall continue to utilize the GDP-PI Implicit Price Deflator.

Telecommunication Division Recommendations:

The Telecommunications Division concludes that Roseville's Advice Letter 735 meets the requirements set forth in the Commission Orders and G.O. 96-A and recommends that the Commission approve this filing.

Commission approval is based on the specifics of the Advice Letter and the associated contract, and does not establish a precedent for the contents of future filings or for Commission approval of similar requests.

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code Section 311(g) (1), the otherwise applicable 30-day period for public review and comment is being waived.

Findings

1. On September 27, 2002, Roseville filed its price cap filing A.L. 735, and requests the following adjustment in its revenues:

Interstate Universal Service Fund Reduction	\$525,765
Total Revenue Adjustments	<u>\$525, 765</u>

2. Roseville requests to recover their annual revenues by applying:
 - a) The current surcharge to be applied to all Local Exchange Services with the exceptions of Category III Services and the taxes and surcharges currently listed in the tariffs from 3.5315% to 4.5238%.
 - b) No changes in the current surcredit to all intraLATA toll in Schedule Cal. P.U.C. No. A25 at -2.2452%.
 - c) No changes in current surcredit to all Access Services listed in the Schedule Cal. P.U.C. No.1 at -0.2012%.
3. Roseville used an inflation factor of 1.03% based on the Bureau of Economic Analysis's GDP-PI Implicit Price Deflator to adjust its price floors.
4. We find reasonable Roseville's revenue adjustment request of \$525,765 for the removal of prior year's one-time adjustments associated with the Interstate Universal Service Fund Reduction.
5. The revenue adjustment associated with Interstate Universal Service Fund Reduction results in a net revenue increase of \$525,765.
6. No protest to this Advice Letter has been received.
7. We adopt TD's recommendation to approve Roseville's A.L. 735.

THEREFORE, IT IS ORDERED that:

1. Roseville Telephone Company shall increase its annual revenues by \$525,765 effective January 1, 2003, as a result of its 2003 annual price cap filing in A.L. 735.
2. Roseville shall implement billing surcharges reflecting the revenue increase ordered in Ordering Paragraph 1, applied to a total billing base of \$72,514,719 for intraLATA exchange and private line services, intraLATA toll services, and intraLATA access service, to become effective on January 1, 2003, subject to review and approval by the Commission's Telecommunications Division. Adopted surcharges are shown in Appendix B.
3. The revisions to Roseville's price floors filed in A.L. 735 are adopted and shall be effective January 1, 2003.

This Resolution is effective today.

I hereby certify that the Public Utilities Commission at the continuation meeting on December 19, 2002 adopted this Resolution. The following Commissioners approved it:

/s/ WESLEY M. FRANKLIN

WESLEY M. FRANKLIN
Executive Director

LORETTA M. LYNCH
President

HENRY M. DUQUE

CARL W. WOOD

GEOFFREY F. BROWN

MICHAEL R. PEEVEY

Commissioners

Appendix A
Resolution T-16716
Roseville Telephone Company
2003 Price Cap Filing

	Roseville Proposed Revenue Impacts	Adopted Impacts
One-Time Adjustments		
Universal Service Fund	\$525,765	\$525,765
TOTAL	\$525,765	\$525,765

Appendix B
Resolution T-16716
Roseville Telephone Company
2003 Price Cap Filing
(Adjustments by %)

	Current Surcharge/ surcredit	Roseville Proposed Surcharge/ Surcredit	Adopted Surcharge/ Surcredit
Access	(0.2012%)	(0.2012%)	(0.2012%)
Local	3.5315%	4.5238%	4.5238%
Toll	(2.2452%)	(2.2452%)	(2.2452%)